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REAL ESTATE DIGEST

PRACTICAL REPORTS ON TAXES, FINANCING, MARKETS, LAW AND TECHNOLOGY

Year Ends on Inflation & Rate Worries: But Home Sales Likely To Stay Steady

Mortgage rates are at or near a year-long high, but economists say they may not rise enough in the near term to make a big dent in home sales.

Frank Nothaft, Freddie Mac vice president and chief economist, says rising energy costs and inflation fears will push mortgage rates up gradually. Still, he doesn't expect them to rise much above 6.1 percent by early next year.

Rates at that level will probably not affect the level of home sales. While there is evidence that markets in some expensive cities might be slowing, economists say there's not enough data yet to show the red-hot market has topped, according to an article in *USA Today.*

Seven percent solution

"It's too early to come to the conclusion that we've slowed," says Nick Buss, vice president of PNC Real Estate Finance. "Once we get to 6.5 percent people will start taking notice. When we get to seven percent, we'll really start to see an impact."

The Federal Deposit Insurance Corp. said this week signs of housing moderation could be emerging. Housing inventories are climbing. Mortgage applications are falling, though purchase loans, which don't include refinancings, are above year-ago levels.

Richard DeKaser, chief economist at National City in Cleveland, says the housing market may have peaked in June, based on the combined sales rate of new and existing homes. Still, he says, more data are needed to tell for sure.

"You'll know for a fact (the market has slowed) a year after it occurred," DeKaser says.

It's all local

Part of the reason it's so hard to call a turning point is that housing is a series of local markets. Just as prices have varied from city to city during the price run-up, they are likely to diverge in any slowdown. Cincinnati home sales are strong, while those in Phoenix have slowed from recent frenetic levels.

But some believe that rising rates will fuel inflation and hurt the real estate market, if not initially, then in the long run.

"No one under 45 has a business memory of an energy-driven inflation episode. The central error that kids are making today is to believe that rising prices will slow the economy. The lesson of the '70s: early-stage inflation stimulates the economy. Widely rising prices make the economy run hot – until the Fed removes the money necessary to pay up," said Lou Barnes, a nationally syndicated real estate columnist.

MARKETS

I'll Take Manhattan –For Less

For the three months ending in September, Manhattan apartments sold for an average of $1.15 million — a drop of 12.7 percent from the $1.32 million record set during the previous quarter, appraiser Miller Samuel announced.

But the city's real estate boom is not over, said the firm's CEO Jonathan Miller, who wrote the quarterly Prudential Douglas Elliman Manhattan Market Overview.

"The boom is continuing — just not at the torrid pace of the first half of 2005," Miller told the *Daily News*. "This is a return to more normal behavior for a healthy real estate market."

The buyers who were most likely to get off the sidelines were renters who wanted to get into home ownership by purchasing small apartments. Fearing that mortgage rates could rise, they figured they'd better buy — and lock in mortgage rates while they were still low.

As a result, entry-level Manhattan apartments hit all-time price records. For instance, condo studios rose 18 percent from the second quarter, to an average of $531,739 — up 34 percent from their year-ago price.

One-bedroom condos gained 10 percent in price in a single quarter, to an average of $794,039. That was 21 percent more than their average a year ago.

At the other end of the scale, the luxury sector was slow — more because of a short supply of really expensive apartments for sale than a lack of demand for them. "It's not that the rich have become frugal," Miller said.

One indication the market's still strong was the average price per square foot — which set a new high and edged closer to $1,000 per square foot. It has risen quarter after quarter with one exception for the past three and a half years, Miller said.

Katrina Changes Market Realities

NAR reports its pending home sales index rose 3.2 percent in August to 129.5, 4.7 percent higher than August 2004, indicating that the national housing market has yet to cool off. Economist David Lereah said, however, the impact of Hurricane Katrina could be corrupting the data.

"Home sales remain at remarkable levels, but there is ambiguity regarding pending home sales in parts of the South since many transactions in the disaster zone will be postponed," he said. Data from affected MLS also has been delayed. An estimated 28,000 Realtors members lost homes and businesses in Katrina.

Meanwhile, the National Apartment Association is condemning FEMA for housing hurricane victims in hotels, saying there are thousands of empty apartments fairly close to the disaster area that could be occupied for far less money.

FEMA says it will allow victims to remain in motels and hotels indefinitely beyond the Oct. 15 deadline for moving them out. NAA said the average hotel/motel rate of $59 per day being paid by FEMA works out to $1,770 a month, exceeding by hundreds of dollars the amount needed to keep victims in apartments. NAA estimates there are 50,000 empty apartments in the Dallas-Fort Worth area alone.

Developers Moving Quickly on Biloxi

Hurricane-damaged Biloxi reportedly is experiencing a boom in land sales as developers descend on the city to buy destroyed properties at high prices, apparently with the hope of building casinos, apartment buildings and entertainment areas.

In one case, a home that reportedly would have sold for $140,000 before Katrina was recently sold for $170,000. City officials say developers are buying up whole blocks.

Some leaders are fearful, however, that low-income neighborhoods that were hit hardest will be purchased by land companies and that the disappearance of low-rent properties will mean many residents will not be able to return to the city.

Investors Eyeing Collegiate Housing

A new report from the National Multi Housing Council points to student housing at the nation's universities as an investment growth area for the conceivable future.

The report, Student Housing 101-103, says that while student enrollment is going up, the amount of student housing on-campus and off is not keeping pace.

Student enrollment is projected to jump by 212,000, or 8.4 percent, by 2010 at the 132 institutions studied. The report identifies at least 27 markets that have experienced housing shortages within the past two years and documents substantial development, ownership and management opportunities for private apartment firms.

AGENTS' CORNER

Indie Musical Film About Real Estate Earns Rave Reviews

A musical comedy film about real estate? You read correctly. The independent feature "Open House" is a musical ensemble comedy about the interwoven lives of the realtors, homebuyers and homeowners at a not-so-typical open house.

The movie stars Anthony Rapp (RENT) and Sally Kellerman (M*A*S*H) as off-kilter real estate agents who lead a diverse group of homebuyers on the search for true love, a bag of jewels and the perfect two-story Spanish colonial. The ensemble cast also includes Kellie Martin (ER), Jerry Doyle (Babylon5), James Duval (Independence Day) and Ann Magnuson (Panic Room).

"Realtors across the country who have seen the film love it – and it's really the only movie out there that captures the excitement of the current real estate market while uniquely portraying professional real estate agents in a positive light," says director Dan Mirvish.

A FilmThreat reviewer wrote: "Hilarious! You'll never look at escrow the same way again!"

"Open House" on DVD is available at Amazon.com, Blockbuster.com and Netflix.com. For more info visit www.openhousemovie.com.

Competition Fierce Among NAR Members

A Penn State University study shows there is rigorous competition between brokers and that, generally, in recent times the largest companies have seen an overall slip in market share, with smaller companies picking up strength. The Penn State study covers 12 markets of varying size.

"In most markets, the market share held by top firms is shrinking," the study concludes.

"In seven of the 12 markets, and four of the six largest, franchised firms have a larger percentage share of the market than do the other locally owned firms," said the authors of the report.

And no single firm dominates any of the 12 markets. "What we find is that selling real estate is intensely competitive. Consumers have more information, they demand more services, and they have more agents and business models to choose from than ever before."

California Finds Industry Is a Revolving Door

A new study by the California Association of Realtors suggests that more than half the members who got into the business in 2000 already are out again and working in some other business. CAR tracked 100 agents who got their licenses in 2000 to see how they progressed. It found only 43 percent are still in real estate.

CAR is the largest of the nation's state Realtor associations, with 161,000 members. However, 42,000 of those members have entered the business in the past year.

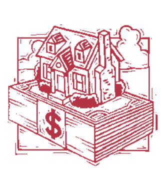
Real Estate Businesses Booming

The number of real estate appraiser businesses grew nationwide by 19.1 percent in 2003, making it the category with the largest growth in non-employer companies, followed by nail salons, 15.9 percent; landscape architectural services, 14.6 percent; and software publishers, 14.4 percent.

The Census Bureau also found that four economic sectors accounted for almost 60 percent of non-employer receipts--real estate and rental and leasing ($176.0 billion); construction ($126.4 billion); professional, scientific and technical services ($102.9 billion) and retail trade ($80.5 billion.)

TRENDS

Homeowners Optimistic About Home Appreciation



Bursting bubble? Inflation fears? Rate jitters? They don't worry the nearly 60 percent of homeowners who expect the value of their homes to increase by at least five percent annually over the next several years, according to a report by RBC Financial Group.

The investment banking company said about 24 percent of respondents expected home value increases of at least 10 percent per year. Only three percent said they thought their home values would go down.

Worldwide Housing Prices Show Slowing

Housing prices in key global markets are not going up as dramatically as they had been in past years, but prices are still increasing in 19 of the 22 markets, according to ResearchWorld.com.

Countries where residential home prices are still recording double-digit annual growth include Hong Kong, 21.2 percent; South Africa, 17.6 percent; New Zealand, 16.5 percent; the United States, 15.8 percent; France, 14.5 percent; Spain, 13.7 percent; and Denmark, 12.2 percent. Prices in Germany, Japan and Australia are generally flat or fractionally down.

Federal Reserve: What Bubble?

An exhaustive study put out by the Federal Reserve in New York suggests that while housing is not cheap by any means, it is not near historic highs once you factor in inflation, salary increases, ownership costs and other economic elements.

The study was done by the Fed in cooperation with economists at Columbia University and the University of Pennsylvania's Wharton School of Business. The study found that out of 46 markets that were studied, only a few such as Miami, Fort Lauderdale and Portland, Ore., had cost-of-ownership ratios that were above those of the 1980s and 1990s.

"In high-appreciation markets like San Francisco, Boston and New York, current prices are not cheap, but our calculations do not reveal large price increases in excess of fundamentals," the authors said.

TECHNOLOGY

High-Speed Connectivity Beginning to Flatten

The Pew Internet and American Life Project says growth in high-speed Internet connections to the home is beginning to trail off. The research firm found that about 53 percent of Americans now have high-speed connections, compared to 50 percent a year ago, a difference that Pew called "statistically insignificant." The project suggested that most heavy Internet users have moved to broadband access in the past four years and that those remaining on dial-up are less-intent Internet users.

LAW

GAO Study Finds Commission Rates Are Justified

The Government Accountability Office has released a report on competition in the real estate industry that has essentially found that agents compete more on service than price, that banks haven't made a big splash in the business, and consumers don't seem to be putting a lot of pressure on agents to lower commission rates.

The study, undertaken at the request of pro-bank Congressman Michael Oxley, R-Ohio, found that while 30 states allow state-charted banks to enter brokerage, few banks have done so – and usually only because their markets are so small that few real estate brokerages exist.

The study also found that those surveyed seemed to want better service from agents rather than lower prices. The report suggested real estate commissions were largely unchallenged because (1) high commissions tend to make agents more aggressive in marketing properties, (2) consumers are used to being charged about six percent for real estate transactions and (3) discount and fee-for-service brokers have such small market shares that many consumers are unaware of those options.

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